

## Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 EB-11 COME-00 TRSE-00 FEA-02

SCI-06 INT-08 OMB-01 DOTE-00 FPC-01 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9330

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TOKYO 0686

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, JA

SUBJECT: ENERGY: DISCUSSION WITH MITI ENERGY CHIEF

REF: TOKYO 0601

SUMMARY: YAMAGATA EXPRESSED POSITIVE ATTITUDE TOWARD ENERGY CONFERENCE, WITH SOME RESERVATIONS OVER EFFECTS OF RECENT BILATERAL MOVES BY FRANCE AND UK. HE EXPRESSED CONCERN OVER INCREASED MARGINS THAT HE STATES MAJORS TAKING IN THEIR PRICING OF CRUDE. HE WAS RELAXED OVER LEVEL OF OIL RECEIPTS BY JAPAN, SAYING RECENTLY INVOKED CONTROLS NEEDED AS MUCH FOR SHIFTING ECONOMIC GOALS AS FROM CONCERN OVER SUPPLY SHORTFALL. IN LOOKING AT CURRENT PRODUCTION SHORTAGES IN SOME SECTORS, HE ATTRIBUTED THESE AS MUCH TO DEMAND PRESSURES AS TO OIL SHORTAGES.

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1. DURING GENERAL DISCUSSION OF ENERGY PROBLEMS WITH ECONCOM/MIN ON JANUARY 16, EIJI YAMAGATA, DIRECTOR GENERAL OF MITI'S RESOURCES AND ENERGY AGENCY, TOUCHED ON NUMBER OF SPECIFIC ASPECTS OF ENERGY POLICY IN JAPAN. FOLLOWING ARE HIGHLIGHTS OF DISCUSSION:

2. ENERGY CONFERENCE -- YAMAGATA SAID THAT IN HIS VIEW THERE WERE TWO BASIC PROBLEMS THAT HAD TO BE ADDRESSED BY THE WASHINGTON ENERGY CONFERENCE: FIRST WAS WHAT TYPE OF PRODUCER-CONSUMER RELATIONSHIP COULD BE DEVELOPED. IT WAS JAPANESE FEELING THAT DISCUSSION EXCLUSIVELY OF CONSUMER RELATIONSHIPS WOULD NOT BE VERY MEANINGFUL IN PRESENT SITUATION. SECONDLY, WHAT KIND OF RULES OR STRUCTURE COULD BE ESTABLISHED FOR OIL PRICES. CONTINUED CHAOS IN OIL MARKETS WOULD CAUSE DISTORTIONS IN WORLD TRADE AND EVEN LEAD TO ECONOMIC "OIL WARS." YAMAGATA REGRETTED THAT BRITISH AND FRENCH HAD CHOSEN TO GO THEIR OWN WAY IN MAKING BILATERAL DEALS WITH THE PRODUCERS, BUT SAID THIS FACT COULD NOT BE IGNORED AND WOULD HAVE TO BE ACCEPTED AND ADDRESSED AT THE ENERGY CONFERENCE. BRITISH AND FRENCH ATTITUDES HOWEVER DID RAISE SOME QUESTION AS TO HOW EFFECTIVE ENERGY CONFERENCE MIGHT BE.

3. PETROLEUM PRICES. YAMAGATA STRESSED THAT THERE WAS GREAT DEAL OF DISSATISFACTION IN JAPAN WITH MAJORS' PRICING POLICY. IT WAS VERY HARD TO UNDERSTAND WHY MAJORS WERE INCREASING THEIR MARGINS IN THIS CRUCIAL PERIOD; RAISING PRICES HIGHER THAN INCREASED PRODUCER GOVERNMENT TAX AND ROYALTY PAYMENTS WOULD WARRANT. YAMAGATA ASKED IF ECONCOM/MIN COULD GIVE ANY EXPLANATION FOR THIS. ECONCOM/MIN REPLIED THAT WHILE HE WAS OET SPOKESMAN FOR MAJORS, HE UNDERSTOOD THAT MAJORS' CASE BASED ON INCREASINGLY LARGE QUANTITIES OF PARTICIPATION OIL WHICH MAJORS HAD TO BUY BACK FROM PRODUCERS AT HIGHER PRICES THAN THEY PAY FOR EQUITY OIL WHICH THUS RAISED AVERAGE COST TO MAJORS. YAMAGATA COUNTERED THAT MAJORS ANNOUNCING HIGH PRICES BASED ON WHAT THEY THINK IS GOING TO HAPPEN RE PARTICIPATION OIL, AND WILL NOT PROMISE TO REDUCE PRICES IF THEIR PREDICTIONS ARE NOT BORNE OUT. YAMAGATA EMPHASIZED THAT FURTHER TALKS

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WITH MAJORS ON THIS SUBJECT ARE NECESSARY TO PREVENT INCREASED PRESSURE IN JAPAN FOR DIRECT DEALS WITH THE PRODUCERS. HE ADDED THAT IN HIS OPINION THIS PROBLEM WOULD BE APPROPRIATE FOR PRELIMINARY US-JAPAN TALKS IN PREPARATION FOR THE ENERGY CONFERENCE AND ALSO FOR THE CONFERENCE ITSELF.

4. GOJ OIL CONSUMPTION CONTROL POLICY. YAMAGATA

NOTED THAT THERE HAD BEEN SOME IMPROVEMENT IN OIL SUPPLY SITUATION IN JAPAN, BUT SAID THAT THERE WERE TWO REASONS WHY GOJ HAD GONE AHEAD WITH PHASE II OF ITS ENERGY CONSUMPTION CONTROLS (SEE REFTEL). FIRST WAS FEELING THAT SHOCK TO JAPAN CAUSED BY OIL SHORTAGES HAD MADE PEOPLE LOOK SERIOUSLY AT THEIR LIFE STYLES. GOJ BELIEVED THAT THIS WAS BENEFICIAL AND THAT IT WAS BETTER TO CONTINUE TO HOLD DOWN EXPECTATIONS RATHER THAN SLIPPING BACK INTO PREVIOUS PATTERNS. SECONDLY, ECONOMIC DEVELOPMENT HAD BEEN PROCEEDING AT HIGH PITCH BUT IT NOW EVIDENT THAT THERE WOULD NOT BE ENOUGH OIL TO FUEL 10 PERCENT GROWTH RATE IN GNP OVER LONG TERM. NOW WAS THE TIME TO PROCEED WITH MORE REALISTIC INDUSTRIAL POLICY.

5. EFFECTS OF OIL SHORTAGES. YAMAGATA SAID IT DIFFICULT TO DETERMINE WHETHER SHORT SUPPLIES OF CERTAIN MANUFACTURED PRODUCTS WERE DUE TO ENERGY SHORTAGES. AMONG JAPANESE, EXPECTATIONS OF PRODUCT SHORTAGES TENDED TO BE SELF-FULFILLING PROPHECIES WHICH CREATED SHORTAGES REGARDLESS OF OTHER FACTORS. ALSO DOMESTIC DEMAND HAD CONTINUED TO INCREASE RAPIDLY, DRAWING ON SUPPLIES THAT NORMALLY WOULD BE EXPORTED, PARTICULARLY STEEL. MITI HOWEVER NOW CONSIDERING ORDERING PRODUCERS TO SET ASIDE SPECIFIC QUANTITIES FOR EXPORT REGARDLESS OF DOMESTIC DEMAND.

6. COMMENT: YAMAGATA WAS OBVIOUSLY MORE RELAXED AT THIS MEETING OVER IMPACT OF OIL CRISIS THAN HE HAS BEEN IN PAST FEW MONTHS. HIS COMMENTS ON HIS BELIEF THAT MAJORS PROFITING UNDULY FROM CURRENT SITUATION WERE DELIVERED WITH SOME FEELING, WHICH IS UNUSUAL FOR THIS RATHER PHLEGMATIC BUREAUCRAT. WE WILL PROBABLY HEAR MORE FROM JAPANESE ON THIS TOPIC IN WEEKS AHEAD.

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## Message Attributes

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